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## Wedding Bells for TIPS and ALDA

By Kerry Pechter     *Wed, Mar 2, 2011*

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*Together, PIMCO's TIPS-based managed payout funds and MetLife's longevity insurance mitigate two big retirement risks: inflation risk and the risk of outliving one's savings.*

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Call it a May-December wedding. Or perhaps a September-December wedding. Either way, it amounts to a decumulation strategy that PIMCO and MetLife hope financial advisors will find connubial.

The two financial giants (PIMCO manages \$1.24 trillion, MetLife sold \$15.1 billion in annuities through 3Q 2010) have agreed to co-market products they regard as complementary: PIMCO's ["Real Income"](#) managed payout funds and MetLife's Longevity Income Guarantee.

The Real Income funds are designed to provide steady, inflation-protected income for either 10- or 20-year terms. Their underlying investments are ladders of TIPS. The Longevity Income Guarantee is an advanced life deferred income annuity (ALDA) that pays out monthly income for life starting at age 75 or 85.

Together, they help mitigate two key retirement risks—the risk of losing purchasing power to inflation and the risk of outliving one's savings. While the two products aren't bundled—that would be complicated on several levels—wholesalers from the two companies plan to promote them as a natural combination.

"It's a cooperative marketing agreement," said MetLife's Elizabeth Forget, senior vice president, Retirement Products. "It's two separate sales, two applications, two tickets. We'll work to help advisors understand that insurance products are a good complement to traditional investments."

The two products are aimed at advisors who want protection for their clients but who aren't regular purchasers of single-premium income annuities or variable annuities.

"We know that a substantial percentage of advisors have clients at or near retirement and are looking for guarantees or longevity projection, and who are attracted to our inflation protection but who do not normally offer variable annuities. So we are looking significantly beyond the VA-friendly advisor," said Tom Streiff, executive vice president and PIMCO's Retirement Product Manager.

The PIMCO Real Income funds offer a target monthly payout consisting of coupon interest, inflation-adjusted principal, and an inflation premium until depleted at their maturity date. When the funds were introduced in late 2009, Streiff estimated that annual payouts per \$100,000 investment would start at about \$11,200 for the 2019 fund and about \$6,200 for the 2029 fund.

Since their introduction, sales of PIMCO's Real Income funds have been modest. Advisors are said to have found them to be an incomplete solution: they provided income from age 65 to 75 or from age 65 to age 85, but not afterwards.

PIMCO had hoped all along to solve that problem by pairing them with another product that hasn't sold

well on its own: longevity insurance or ALDAs. PIMCO's marketing pact with MetLife isn't exclusive but MetLife was the first out with longevity insurance products in 2004 and is one of the few big insurers to offer them.

"We don't introduce products for short-term or opportunistic reasons," Streiff said. "The retirement business is a long term business and anybody who thinks differently will be disappointed."

ALDAs are another product whose time hasn't come yet. Low long-term interest rates have driven up their costs and discouraged their development. MetLife offers two versions of longevity insurance, a Flexible Access version that starts payments at age 75 or age 85 and has a death benefit and a Maximum Income version that pays out starting at age 85, with no death benefit.

According to MetLife, a Flexible Access contract for a 65-year-old with a \$100,000 premium would, starting at age 75, pay out \$14,330 a year for life for a man and \$13,340 a year for a woman, at today's rates. If payments started at age 85, the contract would pay \$38,480 a year for a man and \$36,180 a year for a woman. If the contract owner died before income began, his or her beneficiary would receive the initial premium, grown at 3% a year.

Given the same inputs, the Maximum Income version would pay an 85-year-old man \$69,300 a year for life and would pay a woman of that age \$55,570 a year for life.

The death benefit somewhat defeats the premise of longevity insurance—leveraging mortality—but in practice most people balk at an ALDA without one. "With the Flexible Access version you're giving up a significant amount of income. An economist would probably buy the Maximum Income version. But most people don't think like economists," said Forget.

There's another potential obstacle to longevity insurance: Required Minimum Distributions. Everyone has to withdraw a certain percentage of their tax-deferred IRA, 401(k) or 403(b) savings each year, starting the year after the year they reach age 70½.

If they used all of their pre-tax money to buy longevity insurance starting at age 75 or 80 or 85, they couldn't meet that obligation. Contract owners can generally avoid this problem by withdrawing the RMD amount from another tax-deferred source.

Advisors may want to compare the benefits of a Real Income/Longevity Income Guarantee strategy with a variable annuity/ guaranteed lifetime withdrawal benefit (GLWB) strategy. Both provide steady streams of income in retirement and protection against outliving one's savings—but in very different ways.

VAs are likely to appeal to bullish investors who want to maintain exposure to equity markets throughout retirement, but with downside protection. PIMCO's Real Income fund might appeal to more bearish investors who are worried about inflation and want to protect their purchasing power.

Investments in equities arguably protect against inflation. But that isn't always true—take the 1970s, for example. The drag from fees in variable annuities can also make it difficult for the underlying assets to

grow fast enough to reliably outpace inflation.

It remains for some enterprising advisor to crunch the numbers and see how the risks, the rewards, and the expenses of the two solutions compare.

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